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FEDERAL COMMUNICATIONS COMMISSION
445 12th STREET SW
WASHINGTON DC 20554

CC Docket No. 00-199 – Initial Comments of Public Utility Commission of Oregon (OPUC) in the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2 and Phase 3

Summary

So long as there are universal service funds, revenue sharing plans, monopoly services, and carriers of last resort, there must be consistent accounting and reporting requirements for all carriers. CFR Part 32, Uniform System of Accounts (USOA), and ARMIS encourage each jurisdiction to prescribe a single accounting system instead of 52 systems. Many state commissions, including OPUC, require the use of CFR Parts 32, 36, 64, and 69.

USOA and ARMIS reports should be fluid enough to adapt to technological, competitive, and legal changes, including but not limited to the addition of state universal service funds, changes in pricing policies, and deregulation of some services. Accounts should be added to or removed from USOA periodically, and ARMIS reports should be revised when appropriate.

OPUC agrees with the FCC's proposal to eliminate about one-fourth of the Class A accounts from USOA, as shown in Appendix 3 of the NPRM. OPUC supports some streamlining of the ARMIS reports but does not support the elimination of reports for mid-sized Class A carriers or the elimination of study-area reports for Class A carriers.

Phase 2 – Streamlining Measures
Part 32 Accounting Rules

1. Chart of Accounts

OPUC agrees with the FCC's proposal to eliminate the accounts shown in Appendix 3 of the NPRM. Changes in the industry should be reflected in the accounts through both additions and deletions. Detariffing, deregulation, and new technologies have increased the need for some reporting requirements and account details and have reduced the need for other information.

For example, OPUC does not use the long distance revenue subaccounts, but we would use the additional accounts for resale revenues, wholesale revenues, switched access revenues, special access revenues, state and local tax expenses, universal service revenues, and universal service expenses shown in Appendix 5. Oregon has a state income tax, and OPUC require utilities to report the state tax in their Annual Reports. Oregon assesses fee on carriers' retail revenues. Under one statute, Oregon taxes none of the USF distribution (ORS 759.745). Under another statute (ORS 756.310), Oregon charges a fee on the distribution of USF, but not the collection of funds from customers because the distribution of funds is considered to be in lieu of higher local rates and, thus, revenue from provision of service. In this latter case, the collection of funds from customers is treated like a pass-through of an excise tax.

USOA does not impose significant record-keeping requirements that a reasonable company would not otherwise perform. USOA relies on generally accepted accounting principles (GAAP). That is, GAAP provides the framework (like a Constitution), USOA provides the account structure (like state statutes), and companies add subaccounts and functional accounting as needed (like state administrative rules).

USOA and ARMIS were designed to reduce special studies and data requests from the different jurisdictions. USOA provides much of the information needed to allow for different regulatory and competitive schemes in different jurisdictions and encourages states to prescribe a single accounting system instead of 52 systems.[1] Many state commissions, including OPUC, require the use of CFR Parts 32, 36, 64, and 69.

Regulators and customers must have a way to ensure costs are appropriately and reasonably allocated (separated) between the different segments and jurisdictions. For example, USOA provides information for benchmarks, jurisdictional separations, state and federal universal service funds, state and federal access charges, state and federal lifeline assistance programs. Part 64, which guards against cross subsidization of regulated rates and services, is based on USOA. Access charge rules (Part 69) are based on USOA. The jurisdictional separations rules (Part 36) are very detailed and are based on USOA. Therefore, USOA must be very detailed.

Many states, including Oregon, still set intrastate rates for large telecommunications utilities based on traditional rate of return regulation.[2] Oregon statutes give OPUC broad investigatory powers over all the services the Commission regulates. For example, OPUC has the authority to review affiliated interest transactions for access charges, joint rates, and through services to guard against cross subsidization of regulated and nonregulated services.

Prescribed account structures, capitalization guidelines, property records, depreciation guidelines, rules for allocations between regulated and nonregulated services, notification requirements for accounting changes, and materiality guidelines help provide fairness and consistency between companies that participate in pools. Requiring carriers to use USOA balances the need for public information with the carriers' rights to offer any monopoly services and obligations as carriers of last resort.

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[1] The fifty-two jurisdictions are the fifty states, Washington DC, and the FCC.

[2] Qwest Corporation recently opted into a price cap plan for non-local services. Verizon Northwest, CenturyTel, and Sprint/United Telephone are still fully subject to rate of return regulation.

USOA protects carriers that participate in revenue-sharing pools. USOA promotes consistent accounting and reporting and reduces the amount of improper costs that are charged to the joint funds. Pool participants should strongly support keeping at least as much reporting and accounting consistency as we currently have. Details make it more obvious when carriers shift costs to separation categories that provide higher intrastate amounts. Details make it easier to quickly spot inappropriate charges to operations that get pooled revenues. For example, OPUC does not allow dividends in operating costs, so many owners raised their salaries and cut their dividends. Some carriers have tried to subsidize their nonregulated operations by not allocating buildings and salaries to nonregulated operations. OPUC staff only has three months to process annual access charge changes, and without details, it would be harder to find and correct the improper allocations and cross-subsidization.

Separations accounting requires significant detail, as one look at the complexity of Part 36 allocations shows. If carriers were allowed to provide rolled-up balances only, there would be no way of knowing, short of audits, what costs were included in those balances. With the increase of affiliated-interest issues and the concerns over regulated subsidizing nonregulated, this is not a good time to lessen the detail required from the companies.

OPUC requires annual access charge filings from most Oregon incumbent local exchange carriers (LECs). This means OPUC needs account details reported for separation purposes from telecommunications utilities and cooperatives providing service in Oregon. The companies still participate in revenue pools; and OPUC needs the information to administer the state USF.

Generally, the more detail regulators can get in consistent formats, the better, because commission reviews will take less time and reduce regulatory lag. Carriers' costs are still allocated to the intrastate regulated jurisdiction, even if they are on price-cap regulation at the FCC level. Therefore, the states need the account details for separations and other allocations. Some carriers have reduced their separation and regulatory staffs, but the regulatory protections and burdens have not lessened. Often, the partial deregulation of carriers has <u>increased</u> the allocation processes, despite the fact that some carriers have reduced their separations staffs. The people asking for accounting relief are ignoring their separation accountants, and they are ignoring the benefits of regulation, such as allocated (protected) territories, dispute resolution services, and rate relief at the local level (often considered to be a benefit they want to keep).

Most of the complaints OPUC has heard about accounting burdens are related to confidentiality and have nothing to do with so-called accounting burdens. OPUC audits have shown that many companies actually keep more details than they usually offer to regulators. Most companies can generate nearly any report or provide any information OPUC requests.

Many of the complaints about accounting burdens have been related to nonregulated activities. OPUC does not generally need the current details about nonregulated activities for ratemaking purposes, and the nonregulated accounts should be revised to provide less detail.

Regulatory reports and subsidiary record requirements are business requirements under many states' laws and administrative rules. As such, regulatory accounting and reporting, including USOA and ARMIS, are part of doing business just like tax accounting. If companies expect to reap any benefits from regulations (including territorial allocations and protection from anti-trust laws when they pool their revenues), they must also accept the costs. OPUC has not seen conclusive evidence that regulatory accounting is unduly burdensome or unreasonable. The regulated companies in Oregon have used USOA for so many years that it would probably be more costly to create, implement, and use new systems.

OPUC will not consider supporting the proposal to eliminate the remaining Class A accounts and adopt Class B accounting for all carriers or to allow all carriers to allocate Part 64 costs at a Class B level, unless carriers can provide conclusive evidence that direct assignment of costs would not change if carriers moved from Class A to Class B accounting.

2. Other Regulatory Relief

Sections 32.1220(h) and 32.2311(f). OPUC does not oppose the proposal to eliminate the inventory requirements in sections 32.1220(h) and 32.2311(f). Their elimination should have no effects on OPUC's ratemaking policies.

Section 32.2003(b). OPUC reserves the right to file reply comments on the proposal to eliminate the threshold requirements in section 32.2003(b). OPUC will continue asking for information on an annual basis from Oregon's 34 telecommunications utilities and cooperatives about costs related to property held for future use and construction work in progress, as discussed under Jurisdictional Differences below.

Statement of Financial Accounting Standards (SFAS) 116. OPUC generally supports GAAP. The proposal to let carriers adopt SFAS 116, Accounting for Contributions Received and Contributions Made, should have no effects on OPUC's ratemaking policies.

Jurisdictional Difference Accounts. OPUC does not support the elimination of Jurisdictional Difference accounts. The States need the Jurisdictional Difference accounts. For example, OPUC uses different depreciation rates than the FCC, allows deferred accounting, and adopted special accounting requirements for utilities that did not fully fund their postretirement benefits (SFAS 106).

Oregon also has a statute regarding "not used and useful costs," which includes property held for future use and short-term construction. Operating expenses, taxes, and rate base related to "not used and useful plant," may not be included in utilities' costs of service. Therefore, OPUC will continue requesting information on an annual basis from Oregon's 34 companies about costs related to property held for future use and construction work in progress. Other states have their own peculiarities that need to be identified. Jurisdictional Difference accounts should make it easier, not harder, for companies to provide the information to the states.

Section 32.5280(c). OPUC does not support the proposal to eliminate section 32.5280(c) subsidiary record requirements for nonregulated revenues. Some of these services are still regulated at the state level. If the FCC eliminates the subsidiary record requirements, many carriers will have to continue to provide the information to states.

Accounts 1437 and 4361. OPUC supports the proposal to combine Account 1437, Deferred Tax Regulatory Asset with Account 4361, Deferred Tax Regulatory Liability. For many years, these amounts have been netted in OPUC general rate proceedings.

Property records. OPUC does not support the proposal to eliminate the detailed requirements for property record additions, retirements, and recordkeeping. If FCC accepts the proposal, OPUC will continue to require all telecommunications utilities and cooperatives (incumbent LECs) to maintain the information for use in annual access charge filings.

Section 32.16. OPUC supports the proposal to eliminate the section 32.16 requirement and notifications and approval to implement new accounting standards prescribed by Financial Accounting Standards

Board. OPUC has accepted GAAP and has not required such notification of changes from Oregon utilities.

Section 252(e). OPUC supports the proposal that the FCC should clarify that section 252(e) agreements are treated the same as tariffed services in Part 64 allocation rules.

3. Affiliate Transactions

The proposal to revise FCC's affiliate transactions rules would (a) eliminate the requirement for a fair market value comparison for asset transfers under $500,000; (b) establish a ceiling and floor for recording transactions; and (c) exempt nonregulated to nonregulated transactions from affiliate transactions rules.

OPUC has not adopted this section of USOA. OPUC requires all LECs, who operate in Oregon, to provide Oregon-specific information based on state statutes and OPUC policies and rules. Therefore, OPUC has no comments about the proposal to reduce the FCC's affiliated transaction rules.

4. Incidental Activities

OPUC reserves the right to file reply comments on the FCC's proposal to eliminate the "treated traditionally" requirement from "incidental activities" in section 32.4999(1).

5. Modify FCC's Expense Limit Rules

OPUC supports the proposed change to section 32.2000(a)(4), which would increase the expense limit from $500 to $2,000. This change should have no effects on OPUC's ratemaking policies.

6. Additional Modifications to Cost Allocation Manual Requirements

OPUC will not support the proposal to allow all carriers to allocate Part 64 costs at a Class B level, unless USTA can provide conclusive evidence that direct assignment of costs would not change if carriers moved from Class A to Class B accounting.

7. Classification of Companies

The FCC's proposal to amend section 32.11 to limit the requirements to incumbent LECs does not appear to affect OPUC regulations and ratemaking policies.

Phase 2 – Streamlining Measures
ARMIS Reporting Requirements

1. ARMIS 43-01, 43-02, 43,03, and 43-04 Reports

OPUC does not use ARMIS 43-01, Summary Report. Therefore, OPUC has no comments about the proposal to eliminate ARMIS 43-01, Table I, for all carriers filing at the Class A level.

OPUC opposes the proposal to report amounts at the Total Company level only in ARMIS 43-02, Uniform System of Accounts Report, Table B-1, Balance Sheet, and Table I-1, Income Statement Accounts.

OPUC uses the State (Study Area) tables regularly for incumbent LECs.[3] These tables encourage consistent reporting to the state commissions.

OPUC does not generally use ARMIS 43-02, Table B-4, Analysis of Assets Purchase From or Sold to Affiliates. Therefore, OPUC has no comments about the proposal to eliminate Table B-4.

OPUC does not generally use ARMIS 43-02, Table I-2, Analysis of Services Purchased From or Sold to Affiliates. Therefore, OPUC has no comments about the proposal to eliminate Table I-2.

The FCC should not implement major revisions to 43-03, Joint Cost Report, until the Separations Joint Board has completed not only the Recommended Decision regarding freezing of separations categories and factors but also the Comprehensive Reform of the Separations Rules. OPUC opposes the proposal to report ARMIS 43-03 at the Total Company level only. Jurisdictional reports are necessary for jurisdictional separation purposes.

The FCC should not to implement major revisions to 43-04, Access Report, until the Separations Joint Board has completed not only the Recommended Decision regarding freezing of separations categories and factors but also the Comprehensive Reform of the Separations Rules. Jurisdictional reports are necessary for jurisdictional separation purposes.

2a. ARMIS 43-07, Infrastructure Report

OPUC does not use ARMIS 43-07. Therefore, OPUC has no comments about the proposal to eliminate ARMIS 43-07.

2b. ARMIS 43-08, Operating Data Report

OPUC periodically uses ARMIS 43-08 to obtain information about access lines in other jurisdictions. This report provides immediate access to information that would otherwise be unavailable or available only by special request. While some revisions and streamlining may be appropriate, OPUC does not support the elimination of ARMIS reports for mid-sized Class A carriers.

OPUC does not use ARMIS 495-A and 495-B Reports. Therefore, OPUC has no comments about the proposal to eliminate the ARMIS 495-A and 495-B Reports.

Phase 2 – Streamlining Measures
Relief for Mid-Sized Class A Carriers

Section 64.901(b)(4). OPUC reserves the right to file reply comments on the proposal to eliminate section 64.901(b)(4) for mid-sized Class A carriers.

Cost Allocation Manual (CAM) Procedures. All cost companies in Oregon must file current CAMs with OPUC, based on the FCC's CAM requirements. Oregon companies are required to file changes, but they are not required to file CAMs every year. Therefore, OPUC would support a proposal to revise section

[3] OPUC does not require competitive LECs to use USOA or file reports based on USOA.

64.903 to eliminate annual CAM filings for carriers. OPUC has no comments about the proposal to revise section 64.903 to eliminate biennial CAM audits for mid-sized Class A carriers.

ARMIS Reports. OPUC does not use ARMIS 43-01, Summary Report. Therefore, OPUC has no comments about the proposal to eliminate ARMIS 43-01, Table I, for Class A carriers.

OPUC opposes the proposal to eliminate ARMIS 43-02, 43-03, and 43-04 reports for mid-sized Class A carriers because the state commissions and Separations Joint Board use these reports. For example, CenturyTel of Eastern Oregon, Inc., and CenturyTel of Oregon, Inc., are mid-sized Class A carriers that are still fully regulated under Oregon laws. As a result, they have the same reporting requirements as Qwest Corporation and Verizon Northwest Incorporated.

OPUC does not use ARMIS 495-A, Forecast of Investment Usage Report, and 495-B, Actual Investment Usage Report. Therefore, OPUC has no comments about these reports.

Phase 3 – Long Term Transition to Deregulation

Companies with fewer than two percent of the national number of access lines are, for the most part, still fully regulated under state laws, and they are the carriers of last resort. These companies serve predominately rural areas where competition is less likely to occur. In Oregon, companies with fewer than 50,000 access lines are subject to reduced rate regulation (ORS 759.040), but they are required to use USOA and file annual reports. Requiring carriers to use USOA balances the need for public information with the carriers' rights to offer any monopoly services and obligations as carriers of last resort. OPUC reserves the right to file reply comments about Phase 3, including but not limited to:

- What roadmap the FCC should follow for accounting and reporting deregulation;
- Whether there are certain triggers that will allow the FCC to significantly modify or relieve certain accounting and reporting requirements that currently apply to incumbent LECs;
- Whether there is a point at which the FCC should completely eliminate its accounting and reporting requirements, and if so, whether that point is when all LECs become non-dominant;
- Whether individual carriers should be relieved of accounting and reporting requirements as they individually become non-dominant;
- The effect of BOCs receiving section 271 authorizations to provide in-region interLATA services;
- Whether achieving pricing flexibility should be a trigger for relaxing accounting and reporting requirements;
- Asymmetric regulation;
- How accounting and reporting requirements should evolve as carriers no longer remain in their historical line of business; and
- Whether it makes sense to relieve carriers from reporting requirements, while maintaining our existing accounting requirements and how would the FCC's mission be affected if it were to gather information on a less frequent, or more ad hoc, basis.

Ron Eachus Chairman	Roger Hamilton Commissioner	Joan H. Smith Commissioner